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Unbiased Financial Expertise

Informational Brochure

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BUILDING & GROWING VALUE

Founded in 2002, Continental Advisory Services LLC (“Continental”) is an investment and advisory firm specializing in middle market public and private companies valued with TEV up to \$ 500 million.

With over \$ 10 billion in assets under shared management, our flexible approach allows us to offer a wide array of investment structures.

CAS focuses primarily on these industries:

- Oil, Gas, and Alternative Energy
- IT/Telecom
- Health Care
- Capital Equipment
- Financial Services & Risk Management
- Real Estate Capital Markets and Sales
- Professional Services/A&E



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WHO WE ARE



Jacob H. Yahiayan, Managing Member

During his twenty-five years in corporate banking, Jacob H. Yahiayan, founder and Managing Member of Continental Advisory Services, LLC has successfully structured over USD 5 billion in corporate financing in North American and international markets. In his last management role, Mr. Yahiayan was the Assistant General Manager and Head of Corporate Banking at a subsidiary of Standard Chartered Bank, Plc. Previously Mr. Yahiayan was the Vice President of the Corporate and Institutional Group for Standard Chartered Bank's New York Branch, and Head of Credit and Business Development for the New York Branch of Bank Bumiputra Malaysia Berhad. Mr. Yahiayan received his BA from New York University, MBA from New York Institute of Technology, International Management Certification from INSEAD, Fontainebleau-France, and an MS-Education from CUNY.

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WHO WE ARE

Joshua Maldonado, Managing Director: With over 30 years of progressive and diverse experience in banking and financial services with Federal Reserve Bank of New York, Mr. Maldonado brings a unique perspective as a seasoned professional. His credentials are in bank supervision and regulation with emphasis on accounting, finance, credit, audit and internal controls, and risk management. As a Senior Relationship Specialist, his continuous interaction with the management of foreign agencies and representative offices, commercial banks, broker/dealers, and investment Edge corporations, contributed to advanced risk knowledge in credit, market, liquidity, operations and legal compliance. Mr. Maldonado has also coordinated, supervised and performed multiple risk assessments of these institutions while training and coaching junior specialists. He also has headed examination teams who conducted safety and soundness examinations within the 2nd Federal Reserve District to assess risk management, operational controls, asset quality and the financial condition of the institutions. Mr. Maldonado has participated in various training programs at the Board of Governors of the FRS and the Federal Financial Institutions Examination Council in Washington, D.C. He earned his BA from Hunter College and MBA from Fairleigh Dickinson University with a specialty in Bank Management.

Elena V. Ravich, Esq., Managing Director: Ms. Ravich has over 20 years of CRE and commercial legal expertise. Her career track includes LeBoeuf, Lamb, Greene & MacRae LLP and Eastern Consolidated. Ms. Ravich has earned her Masters in Real Estate Finance and Investments from New York University, JD from Moscow State University, and LLM from Case Western Reserve University. Ms. Ravich is licensed by the New York State Bar, Real Estate Broker's License, and Notary Public.

Aldo Andreoli, Managing Director, PE: Mr. Andreoli has over 35 years experience in civil and environmental engineering working with Northville Industries, Suffolk County Department of Health Services, Southampton Village, and other prominent institutions. Mr. Andreoli is a licensed Professional Engineer in the states of New York and New Jersey, and teaches at SUNY Stony Brook . Additionally, Mr. Andreoli has been awarded Engineer of the Year Award from the National Society of Professional Engineers and Civil Engineer of the Year Award from the American Society of Professional Engineers. Mr. Andreoli received his MCE from NYU and a Fulbright Grant Recipient, Laureate at the University of Naples.

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WHO WE ARE

Arsha Cazazian, Managing Director, AAIA: Ms. Cazazian has spent more than ten years in international relations and development while working both at the United Nations Development Programme and at Morgan Stanley. She holds a BA in Media Studies from Hunter College and a Master's Degree in Architecture from the Columbia University Graduate School of Architecture, and a Fulbright Grant Recipient.

Wayne Clark, Managing Director, P.E: Mr. Clark has more than a twenty years experience in various complex professional engineering theaters of operation. He holds a BS from CUNY-City College and Masters in Science/Mechanical Engineering from Columbia University.

Michael Kaplan, Managing Director: Mr. Kaplan has over 25 years expertise in facilities operations and management including MEP/HVAC. Mr. Kaplan holds a BS - Mechanical Engineering from NYU Tanden School of Engineering.

Bruce Fabrizio, Managing Director, CPA: With more than 20 years experience as a CPA, Mr. Fabrizio has audited small to middle market companies. Mr. Fabrizio's expertise includes cost certification of new construction of commercial buildings, forensic accounting and estate and partnership taxation. Mr. Fabrizio holds a BS in Accounting from NYIT.

Jirayr Habibian, Director: With 20 years expertise in M&A and CAMS within the Middle Eastern theaters of operation, Mr. Habibian brings proven track record in due diligence matters. Previously Mr. Habibian was Head of Compliance for Standard Chartered Bank, Plc's MESA Division. Mr. Habibian earned his Law Degree from Saint Joseph's University Law School, and speaks fluent Arabic, French, and Armenian.

Jess S. Boronico, Ph.D., Executive Advisor: Mr. Boronico has over 20-years expertise in operations research and measured growth strategies. Mr. Boronico has earned his Doctor of Philosophy in Operations research and Management Science from the University of Pennsylvania, The Wharton School, Masters of Science and Bachelor of Science in Mathematics from Fairleigh Dickinson University.

WHO WE ARE

Rajen K. Tiberwala, Senior Advisor: With over 40 years expertise in MNE operations management expertise, Dr. Tiberwala brings a measured growth strategy and EVA expertise to complicated projects. Mr. Tiberwala has an Engineering Science Doctorate from Columbia University, Masters in Industrial Engineering from Columbia and a Bachelor's of Science in Mechanical Engineering from B.I.T.S.

Dr., John Taktajian, Director: Mr. Taktajian holds a Bachelor of Science degree in Chemistry from Cornell University and a Doctorate in Pharmacy & MBA from University of Maryland.

Steven J. Shapiro, Ph.D, Senior Advisor: Mr Shapiro has over 30-years expertise in econometrics and financial risk expertise as well as several publications and white papers. Mr. Shapiro has a Ph.D., Financial Economics from Georgetown University, M.A., Economics from Georgetown University as well as a B.A. in Economics and Mathematics from University of Virginia.

Michelle Liu, Ph.D., CPA, Senior Advisor: Ms. LIU brings an extensive audit and accounting expertise and has worked with Deloitte and Touche, LLP. Ms. LIU earned her Ph.D. in Accounting from MIT, Sloan School of Management and a BBA with honors in Accounting at Southern Methodist University.

Spiros Rally, Senior Advisor: Mr. Rally is a media executive with more than 25 years of strategic experience within publishing, media, gaming, and entertainment sectors. Mr. Spiros is an executive at SONY's Digital Works group. Mr. Spiros earned his BSc in Industrial Engineering and MBA from NYIT, and holds AGL at UCLA-Anderson School of Business.

Saumil Bhansali, Director/CFA-L3: Mr. Bhansali has over 10-years expertise in valuations and financial engineering. Mr. Bhansali earned his MBA from Boston University and a Bachelor of Engineering (Computer Engineering) from University of Mumbai.

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WHO WE ARE

Gregory Yahiaian, Analyst: Mr. Yahiaian's expertise includes capital and emerging markets, business valuation, portfolio management, and mergers, acquisitions and restructuring. Mr. Yahiaian earned a Bachelor of Business Administration concentrating in finance and investments from Murray Koppelman School of Business at City University of New York (CUNY), Brooklyn College.

Megan Wahnon, Media Analyst: Ms. Wahnon specializes in Media and Graphic Design. Her work includes but is not limited to designing brochures, fliers, business cards, business advertisements and web design. She has 5 years experience with digital 4k photography, shooting events and such. She has earned her Bachelors of Technology at New York City College of Technology, City University of New York (CUNY).

Anthony Gullo, Analyst: Mr. Gullo's previous experience includes work in both the public and private sectors, and has developed experience in business development, coordination with corporate level executives, and portfolio management. He is currently pursuing a Bachelor of Science degree in Government and Spanish from the College of Arts and Sciences at Cornell University.

Patrick Tchiloian, Analyst: Mr. Tchiloian's expertise includes creating thorough business reports to present to companies with outstanding business communication skills. Mr. Tchiloian has managed a multi-strategy hedge fund via a simulated account with real-time market data using a variety of strategies which he learned from the American University of Beirut (AUB), where he earned his Bachelor of Business Administration (BBA) in Finance.

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SERVICES

CAS provides commercial & investment advisory services:

- Debt and private equity raising (Regulation D of the Securities Act of 1933)
- Trade receivables securitization
- Treasury policy and cash management
- Mergers and acquisitions
- Divestiture advisory (spin-offs)
- Loan workout plans
- Project Management (Engineering & Construction)

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METHODOLOGY

CAS Certifications & Affiliations:

- Licensed New York State Real Estate Broker
- Willis
- TMA (Cornerstone 15)
- Real Estate Board of New York
- Building Materials Reuse Association
- Association for Corporate Growth
- Association of Financial Professionals
- Associated Builders & Owners of Greater N.Y., Inc.
- National Association of Home Builders
- New York State Builders Association
- American Planning Association
- OSHA 30 – NYC Department of Buildings

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METHODOLOGY

Investment Criteria:

US investment \$ 10 - US \$ 500 million
EBITDA between \$ 5 -US \$ 150 million

Investment Structures:

Senior Secured Convertible Notes
Straight Equity / ESOP
Mezzanine

Transaction Types:

Mergers and Acquisitions (M&A)
Refinancing
Growth Capital (Capital Growth Strategy)
Leveraged Buyout
Recapitalization Investment restructuring

Continental maintains a close relationship to its clients to identify new opportunities and develop strategies to promote business expansion.

Our team has extensive experience in investments, which are in various parts of maturity and economic cycles.

We pride ourselves on our ability to achieve goals quickly and creativity, and remain committed to build long-term relationships with our customers to support the growth of their business.

CORPORATE & INSTITUTIONAL PARTNERS



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MAJOR TRANSACTIONS

<p>\$20,000,000 Private Equity</p> <p>CRO- Pharmaceutical U.S.A.</p>	<p>\$200,000,000 Debt & Equity</p> <p>Pharmaceutical EUROPE</p>	<p>\$100,000,000 Debt & Equity</p> <p>Engineering U.S.A.</p>	<p>\$200,000,000 Debt</p> <p>European Hospitality Group</p>	<p>\$100,000,000 Debt & Equity</p> <p>Insurance Company U.S.A.</p>	<p>\$10,000,000 Debt & Equity</p> <p>IP/SaaS C.I.S.</p>
<p>\$250,000,000 Debt & Equity</p> <p>Mixed Use Development U.S.A.</p>	<p>\$100,000,000 Debt & Equity</p> <p>Hotel Conversion U.S.A.</p>	<p>\$100,000,000 Debt</p> <p>HNW-Life Insurance U.S.A.</p>	<p>\$10,000,000 Debt</p> <p>Healthcare Centers U.S.A.</p>	<p>\$10,000,000 Debt & Equity</p> <p>Luxury Fixtures & Appliances U.S.A.</p>	<p>\$15,000,000 Debt</p> <p>I.T. Reseller U.S.A.</p>

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Intelligent Artifacts

Next-Generation Cognitive Computing & Machine Intelligence

**The convergence of
General Artificial Intelligence,
Big Data, Deep Learning,
and Evolving Algorithms**



Predictions, Decisions, Actions



Advanced Analytics/Deep Learning



AI, IoT and Robotics

GAluS Cognitive Computing: A General Evolving Networked Intelligence Engine

- GAluS is an universal cognitive computing platform
- GAluS is an environment for very quickly creating advanced machine intelligence that can be integrated in a wide variety of software technologies
- GAluS can use any type of data, and be used for any type of application
- GAluS provides savings - use lower cost Data Admins and/or App Devs instead of Data Scientists



GAluS is Solving Several Critical Problems with Current Machine Intelligence Solutions

Our Solution

1. It takes months or years to create a useful machine intelligence model

- GAluS does not require modeling of the input data and does not use a pre-designed model algorithm
- Information is extracted from raw data using a proprietary Modern Information Theory
- GAluS learns instantly and in real-time from all available data



GAluS is Solving Several Critical Problems with Current Machine Intelligence Solutions

Our Solution

**2. The algorithms
created by Data
Scientists are static,
often sub-optimal and
will get out of date**

- The GAIUS prediction models are constantly updated and improved from live data
- Answers are only modeled at prediction time, using the latest data
- Process models are encoded within genomes that can evolve to automatically find the best performing solutions



GAluS is Solving Several Critical Problems with Current Machine Intelligence Solutions

Our Solution

3. Current machine intelligence models can not make use of all the data forms currently available

- Unlike other solutions, GAIUS supports both text- and vector-based data
- GAluS' Universal Data Inputs allow seamless integration of multiple disparate verticals or problem domains
- GAluS' Universal Data Outputs allow seamless integration of results regardless of query



GAluS is Solving Several Critical Problems with Current Machine Intelligence Solutions

Our Solution

4. Normally, each algorithm supports one function, limiting the usefulness of machine intelligence for core business applications

- GAluS universal solutions allows you to combine different data or applications into one topology
- Create actionable intelligence from all your available data
- Derive insights, decisions and actions to develop complete business solutions



Insights, Predictions, Decisions



Advanced Analytics/Deep Learning



AI, IoT and Robotics

The Opportunity:

GAluS General Evolving Networked Intelligence Engine

- Like the human mind, GAluS continuously learns and adapts to real-time changes in its environment
- GAluS is a universal and evolving platform that adds value in any data-based use case
- GAluS' 3 input types (i.e. strings, vectors, scalars) can encode any real-world data problem
- GAluS is the next-generation machine intelligence solution that shifts human programmed solutions to automated machine-evolved solutions, and is the only current path to human-level intelligence



GAluS has Provided Intelligence in Numerous Use Cases

Insights, Predictions, Decisions

Advanced Analytics/Deep Learning

AI, IoT and Robotics

Some of our experience to date

- predictive business analytics
- process automation
- IT intrusion detection
- investment analysis
- fraud detection
- credit risk analysis
- sales opportunity optimization
- customer churn analysis & minimization
- product recommendation engines
- content analysis and summarization
- hedge-fund intelligence
- real-time analysis and improvement of human performance
- medical diagnosis –classify & predict heart problems with machine-vision
- pharmacological effectiveness prediction
- biotechnology informatics
- robot perception and control
- classification and recognition of biological species



Our Team

Sevak Avakians, Co-Founder/CTO: Sevak became fascinated with artificial intelligence and robotics as a child. This led him to study physics (SUNY Stonybrook), electrical engineering, and artificial intelligence over the next two decades. Sevak has led the design and development of GALuS, which is an alternative approach to machine intelligence. Prior to founding Intelligent Artifacts, he served as an information security analyst for the Federal Reserve Bank/US Treasury.

Peter Olausson PhD, Co-Founder/CEO: Peter started his career as a neuroscientist and spent over a decade at Yale researching how memories, motivation and impulse control together affect decision-making. After leaving academic research, he has focused on new breakthroughs in technologies that will shape the transformation of the human experience including cognitive computation, neuroscience based information processing & knowledge networks. Before founding Intelligent Artifacts, Peter ran a consulting company providing advanced data analytics and knowledge network design.

David McGoveran PhD, Chairman: David serves as chairman of Intelligent Artifacts' Board. He has over 40 years of experience in IT, primarily in design and development of enterprise and mission critical applications and as an industry analyst and advisor specializing in the database, business intelligence, application integration, and business process management markets. His experience include the design of natural language processing systems, knowledge bases, very large databases, robotics and complex analytics.



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In the News

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Public Address Announcement **November 23, 2016**

Continental Advisory Services, LLC ("CAS") is pleased to announce the three C-level associates:

Spiros Rally, Senior Advisor: C-level member of SONY's Global Digital Works with over 25-years in media expertise. Mr. Rally earned his BSc from NYIT;

Michael Kaplan, Managing Director: With over 25 years in engineering with a focus on BMS and PM. Mr. Kaplan earned his BSc. In Mechanical Engineering from NYU;

Saumil Bansali, Director, CFA-Level3: With over 15-years In Computer Sciences and Financial Engineering. Mr. Bansali earned his MBA from Boston University.

Continental Advisory is also pleased to announce the addition of,
One World Trade Center, Suite 8500, NYC 10007
(o) 212-220-7118 as part of its
Commitment to NYC's Financial District.

FEDERAL RESERVE SYSTEM

Docket No. OP-1555

Application of the RFI/C(D) Rating System to Savings and Loan Holding Companies

AGENCY: Board of Governors of the Federal Reserve System (Board).

ACTION: Notice and request for comment.

SUMMARY: The Board proposes to fully apply the same supervisory rating system to savings and loan holding companies as currently applies to bank holding companies.

This proposal furthers the Board's goal of ensuring that holding companies that control depository institutions are subject to consistent standards and supervisory programs. The proposal would not apply to savings and loan holding companies engaged in significant insurance or commercial activities. These firms would instead continue to receive indicative supervisory ratings.

DATES: Comments must be received no later than February 13, 2017.

ADDRESSES: You may submit comments, identified by Docket No. OP-1555, by any of the following methods:

- **Agency Web Site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/apps/foia/proposedregs.aspx>.
- **Federal eRulemaking Portal:** <http://www.regulations.gov>. Follow the instructions for submitting comments.
- **E-mail:** regs.comments@federalreserve.gov. Include the docket number in the subject line of the message.
- **Fax:** (202) 452-3819 or (202) 452-3102.

- **Mail:** Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

All public comments will be made available on the Board's web site at <http://www.federalreserve.gov/apps/foia/proposedregs.aspx> as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room 3515, 1801 K Street, NW (between 18th and 19th Streets NW), Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays. For security reasons, the Board requires that visitors make an appointment to inspect comments. You may do so by calling (202) 452-3684. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.

FOR FURTHER INFORMATION CONTACT: T. Kirk Odegard, Assistant Director and Chief of Staff, Policy Implementation and Effectiveness, (202) 530-6225, or Karen Caplan, Manager, (202) 452-2710, Division of Banking Supervision and Regulation; Tate Wilson, Counsel, (202) 452-3696, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

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I. Background

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) transferred responsibility for the supervision of savings and loan holding companies (SLHCs) from the Office of Thrift Supervision to the Federal Reserve.¹ Since 2011, the Board has applied its existing rating system for bank holding companies (BHCs) – the RFI/C(D) rating system (commonly referred to as the “RFI rating system”)² – to SLHCs on an indicative basis as a way of providing feedback to SLHCs regarding supervisory expectations while the Federal Reserve and SLHCs each became familiar with the newly established statutory framework for supervision. Federal Reserve supervisory staff have assigned to each savings and loan holding company an “indicative rating,” which describes how the savings and loan holding company would be

¹ 12 U.S.C. 5412(b)(1).

² Under the RFI rating system, BHCs generally are assigned individual component ratings for risk management (R), financial condition (F), and impact (I) of nondepository entities on subsidiary depository institutions. The risk management component is supported by individual subcomponent ratings for board and senior management oversight; policies, procedures, and limits; risk monitoring and management and information systems; and internal controls. The financial condition rating is supported by individual subcomponent ratings for capital adequacy, asset quality, earnings, and liquidity. An additional component rating is assigned to generally reflect the condition of any depository institution subsidiaries (D), as determined by the primary supervisor(s) of those subsidiaries. An overall composite rating (C) is assigned based on an overall evaluation of a BHC’s managerial and financial condition and an assessment of potential future risk to its subsidiary depository institution(s). A simplified version of the RFI rating system that includes only the risk management component and a composite rating is applied to noncomplex BHCs with assets of \$1 billion or less.

rated under the RFI rating system if applied to the company without the rating itself triggering supervisory consequences.³

Prior to the transfer of supervisory responsibility for SLHCs, the OTS assigned supervisory ratings for SLHCs under the CORE rating system.⁴ The CORE rating system and the RFI rating system substantially overlapped. The two rating systems generally included assessments of the same set of financial and non-financial factors and provide a summary evaluation of each holding company's condition.⁵ Under both systems, assigned ratings formed a basis for supervisory responses and actions, including discussions between supervisors and firm management of a holding company's condition.

The Board did not adopt the CORE rating system upon taking over supervision of SLHCs. Instead, because SLHCs and BHCs face the same risks and engage largely in the same activities, the Board sought to ensure that holding companies of depository institutions were subject to consistent standards and supervisory programs by applying the same RFI rating system to SLHCs as the Board applies to BHCs. To allow a period

³ All SLHCs that have been inspected have received at least one indicative rating.

⁴ See 72 FR 72442 (December 20, 2007). Under the CORE rating system, SLHCs generally were assigned individual component ratings for capital (C), organizational structure (O), risk management (R), and earnings (E), as well as a composite rating that reflected an overall assessment of the holding company as reflected by consolidated risk management and financial strength.

⁵ The primary difference between the two rating systems concerned asset quality and liquidity. Under the CORE rating system, a review of asset quality was subsumed into other rating elements such as capital and earnings, it was not specifically accounted for or assessed. Similarly, liquidity was not rated separately under the CORE rating system; it was taken into account in the organizational structure and earnings assessments. The RFI rating system assigns a separate subcomponent rating for asset quality and liquidity that support the overall financial condition rating.

of adjustment for both the Federal Reserve and SLHCs, the Federal Reserve assigned RFI ratings on an indicative basis only.

II. The Proposal

Applying the RFI Rating System to SLHCs

After completing a number of supervisory cycles in which the RFI rating system has been applied to SLHCs on an indicative basis and having evaluated the information gained from that process, the Board now proposes to apply the RFI rating system to certain SLHCs on a fully implemented basis.⁶ Applying the RFI rating system to both BHCs and SLHCs ensures that holding companies of depository institutions are subject to consistent standards and supervisory programs.⁷ Experience with this process over the past five years indicates that the RFI rating system is an effective approach to communicating supervisory expectations to SLHCs. In proposing this application of the RFI rating system to certain SLHCs, the Board has taken into account the diverse population of SLHCs and the experience gained in assigning indicative RFI ratings to these firms.

The Board proposes to apply the RFI rating system to all SLHCs except those that are excluded from the definition of “covered savings and loan holding company” in section 217.2 of the Board’s Regulation Q.⁸ Specifically, the Board would not fully

⁶ See 12 U.S.C. 1467a(b) (providing for the supervision and examination of SLHCs by the Board) and 1467a(g) (authorizing the Board to issue regulations and orders it deems necessary to or appropriate to enable it to administer and carry out the purposes of section 10 of HOLA).

⁷ The Board is not proposing any changes to the application of the RFI rating system to bank holding companies at this time.

⁸ 12 CFR 217.2.

apply the RFI rating system to SLHCs that derive 50 percent or more of their total consolidated assets or total revenues to activities that are not financial in nature under section 4(k) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1843(k)). This proposal also would not apply to savings and loan holding companies that are insurance companies or savings and loan holding companies that hold 25 percent or more of their total consolidated assets in subsidiaries that are insurance companies. Instead, the Board would continue to assign an indicative rating under the RFI system to these SLHCs as it reviews whether a modified version of the RFI rating system or some other supervisory rating system is appropriate for these firms on a permanent basis.

Under this proposal, all components of the RFI rating system (*i.e.*, risk management, financial condition, and potential impact of the parent company and nondepository subsidiaries on subsidiary depository institution(s)) would apply to SLHCs.⁹ Likewise, the depository institution rating, which generally mirrors the primary regulator's assessment of the subsidiary depository institution(s), would apply to certain SLHCs under the proposal. A numeric rating of 1 indicates the highest rating, strongest performance and practices, and least degree of supervisory concern; a numeric rating of 5 indicates the lowest rating, weakest performance, and the highest degree of supervisory concern.

⁹ Consistent with the approach for BHCs, when assigning a rating to an SLHC supervisory staff will take into account a company's size, complexity, and financial condition. For example, a noncomplex SLHC with total assets less than \$1 billion will not be assigned all subcomponent ratings; rather, only a risk management component rating and composite rating generally will be assigned. These would equate, respectively, to the management component and composite rating under the CAMELS rating system for depository institutions, as assigned to the SLHC's subsidiary savings association by its primary regulator.

The financial condition component of the RFI rating includes a subcomponent that represents an assessment of capital adequacy. Compliance with minimum regulatory capital requirements is part of a broader qualitative and quantitative assessment of an SLHC's capital adequacy. As of January 1, 2015, certain SLHCs became subject to minimum capital requirements and overall capital adequacy standards.¹⁰ For SLHCs subject to minimum regulatory capital requirements, assessment of the SLHC's compliance with those requirements will be one element of a broader qualitative and quantitative assessment of capital adequacy.¹¹

Noncomplex SLHCs under \$1 billion will be assigned an abbreviated version of the RFI rating system consistent with the Board's practice for BHCs outlined in SR 13-21.¹² An offsite review of the SLHC will be conducted upon receipt of the lead depository institution's report of examination. The supervisory cycle will be determined by the examination frequency of the lead depository institution and the SLHC will be assigned only a risk management rating and a composite rating.

¹⁰ See 78 FR 62018, 62028 (October 11, 2013) (outlining the timeframe for implementation of Regulation Q for SLHCs and others).

¹¹ See Sections 4060 and 4061 of the *Bank Holding Company Supervision Manual*; Supervision and Regulation Letter 15-19 (December 18, 2015), *available at* <https://www.federalreserve.gov/bankinfo/reg/srletters/sr1519.htm>; Supervision and Regulation Letter 15-6 (April 6, 2015), *available at* <https://www.federalreserve.gov/bankinfo/reg/srletters/sr1506.htm>; Supervision and Regulation Letter 09-04 (February 24, 2009, revised December 21, 2015), *available at* <http://www.federalreserve.gov/boarddocs/srletters/2009/sr0904.htm>.

¹² Supervision and Regulation Letter 13-21 (December 17, 2013), *available at* <https://www.federalreserve.gov/bankinfo/reg/srletters/sr1321.htm>

Finally, elements of the RFI rating system that are codified in the Board's *Bank Holding Company Supervision Manual*¹³ and a policy letter issued by the staff of the Board's Division of Banking Supervision and Regulation will be revised if the proposal to fully apply the RFI system to certain SLHCs is finalized.¹⁴

Assessment of capital adequacy for SLHCs that receive indicative ratings

For SLHCs that would continue to receive an indicative rating under the RFI rating system, the Board proposes that examiners, in the evaluation of capital adequacy of an SLHC, consider the risks inherent in the SLHC's activities and the ability of capital to absorb unanticipated losses, provide a base for growth, and support the level and composition of the parent company and subsidiaries' debt.

Supervisory guidance for SLHCs with less than \$10 billion in assets

In 2013, Board staff published several supervisory letters extending the use of the RFI rating system for and assignment of indicative ratings to SLHCs and extending the scope and frequency requirements for supervised holding companies with total consolidated assets of \$10 billion or less to SLHCs. Until such time as the Board adopts a final rule on the application of the RFI rating system to SLHCs, SLHCs may refer to these letters for staff-level guidance on the use of indicative ratings.

The Board invites comment on all aspects of this proposal.

¹³ Available at http://www.federalreserve.gov/boarddocs/supmanual/supervision_bhc.htm.

¹⁴ See Supervision and Regulation Letter 04-18 (December 6, 2014), available at <http://www.federalreserve.gov/boarddocs/srletters/2004/sr0418.htm>.

III. Regulatory Analysis

Paperwork Reduction Act

There is no collection of information required by this proposal that would be subject to the Paperwork Reduction Act of 1995, 44 U.S.C. 3501 *et seq.*

Regulatory Flexibility Analysis

The Regulatory Flexibility Act (RFA) requires an agency to publish an initial regulatory flexibility analysis with a proposed rule or certify that the proposed rule will not have a significant economic impact on a substantial number of small entities. Based on its analysis, and for the reasons stated below, the rule would not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing an initial regulatory flexibility analysis and requests public comment on all aspects of its analysis. The Board will, if necessary, conduct a final regulatory flexibility analysis after considering the comments received during the public comment period.

1. *Statement of the need for, and objectives of, the proposed rule.* The proposed rule would apply the same supervisory rating system to SLHCs as currently applies to bank holding companies. The RFI rating system is an effective approach to communicating supervisory expectations to SLHCs. This proposal furthers the Board's goal of ensuring that holding companies that control depository institutions are subject to consistent standards and supervisory programs.

2. *Small entities affected by the proposed rule.* Under regulations issued by the Small Business Administration, a small entity includes an SLHC with total assets of \$550 million or less. As of October 31, 2016, there were approximately 157 small SLHCs. The proposed rule will not have a significant economic impact on the entities that it

affects because the proposal does not impose any recordkeeping, reporting, or compliance requirements. The Board invites comment on the effect of the proposed rule on small entities.

3. *Recordkeeping, reporting, and compliance requirements.* The proposed rule would not impose any recordkeeping, reporting, or compliance requirements.

4. *Other Federal rules.* The Board has not identified any likely duplication, overlap and/or potential conflict between the proposed rule and any Federal rule.

5. *Significant alternatives to the proposed revisions.* The Board believes that this proposal will not have a significant economic impact on small banking organizations supervised by the Board and therefore believes that there are no significant alternatives to this proposal that would reduce the economic impact on small banking organizations supervised by the Board.

The Board solicits comment on any significant alternatives that would reduce the regulatory burden associated on small entities with this proposed rule.

Solicitation of Comments on Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act requires the Board to use plain language in all proposed and final rules published after January 1, 2000. The Board invites comment on how to make this proposed rule easier to understand. For example:

- Has the Board organized the material to suit your needs? If not, how could the proposal be more clearly stated?
- Are the requirements in the proposal clearly stated? If not, how could the proposal be more clearly stated?

- Does the proposal contain technical language or jargon that is not clear? If so, what language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposal easier to understand? If so, what changes would make the proposal easier to understand?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What else could the Board do to make the proposal easier to understand?

By order of the Board of Governors of the Federal Reserve System, December 8, 2016.

Robert deV. Frierson (signed)

Robert deV. Frierson,
Secretary of the Board.

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